Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay **May/June 2018**

1 hour 30 minutes

No Additional Materials are required.

8773586229

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer **Question 1**.
Brief answers only are required.

Section B
Answer **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

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Section A

Answer this question.

1 Russia's economic problems are getting worse

Russia's currency, the rouble (RUB), has been falling rapidly in value.

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An index of the real exchange rate fell from a value of 100 in 2010 to 75.8 in 2015 and this should have the effect of eventually helping to encourage exports.

Source: Adapted from The Economist

Table 1.1: Selected economic indicators for Russia 2013–2015

Economic Indicator	2013	2014	2015
Annual inflation rate	6.8%	7.8%	15.4%
Economic growth rate	1.3%	0.6%	–3.9%
Nominal exchange rate (RUB per US$)	38.4	56.3	61.3

Source: Adapted from The World Fact Book

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(a) **(i)** Using Table 1.1, calculate the percentage fall in the nominal value of the rouble against the US dollar between 2013 and 2015. [2]

(ii) Explain the difference between a nominal exchange rate and a real exchange rate. [2]

(b) Explain, using a demand and supply diagram, how the fall in the price of a barrel of oil contributed to a decline in the value of the rouble. [4]

(c) Analyse the likely impact the depreciation of the rouble could have on the Russian economy. [6]

(d) Discuss whether the privatisation of some state assets would be of overall benefit to the Russian economy. [6]

Section B

Answer **one** question.

2 **(a)** Explain why both merit goods and demerit goods are examples of private goods. [8]

(b) Discuss whether merit goods and demerit goods are best provided by a market economy. [12]

3 **(a)** Explain the factors that can affect the price elasticity of demand for a product. [8]

(b) Discuss the extent to which knowledge of a product's cross-elasticity of demand is likely to be important to a firm supplying that product. [12]

4 **(a)** Explain the characteristics that money needs to have in order to perform its functions effectively. [8]

(b) Discuss the likely consequences for an economy of an increase in the money supply. [12]

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Section A

Answer this question.

1 **Thai Economy's Prospects Improve**

Table 1.1: Total expenditure in Thailand, by category, 2014

Category of Spending	US dollars (billions)	% National Expenditure
Household consumption	243	55.6
Capital goods	98	22.4
Government consumption	69	15.8
Exports	280	64.1
Imports	253	57.9

Source: United Nations data

Extract 1: Thailand's economy shows improved health

The latest figures show that Thailand's economy grew by 3.5% in the second quarter, putting it on track for 3–3.5% growth for the whole of 2016. Thailand has managed to boost its growth after several quarters of disappointing performance by increasing public sector investment in several large infrastructure projects, including roads, railways and airports. These projects will run over the next 3 to 5 years and are worth several hundred billion baht, Thailand's currency. It is hoped that this public sector investment will encourage the private sector to increase their investment spending.

In addition to increased investment, the Thai economy's growth is being boosted by recovering private consumption due to increases in farm prices, which are crucial to household purchasing power, as well as a strong tourism sector.

Regarding the export sector, which remains the biggest engine of growth, the outlook is still uncertain but the negative impact from China's economic slowdown appears to have stabilised with a Chinese growth rate of around 6.6% per annum.

Source: The Nation, 18 August 2016

Extract 2: Thailand's tourism industry continues to grow

The Thai tourism industry is projected to record international visitor arrivals of 16.67 million between January and June 2016, which will be up by 13% over the same period of 2015. Projected earnings are estimated at 824 billion baht, up 17%. The top three markets in terms of tourism receipts are projected to be China (146 billion baht, +32%), Malaysia (22.5 billion baht, +15%) and Australia (17.8 billion baht, +4%). China is now by far the largest source of visitors, but there has been a resumption of growth from Russia and Thailand's neighbouring countries of Cambodia, Laos and Myanmar.

Source: Thailand Business News, June 2016

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(a) **(i)** Calculate the level of aggregate demand in Thailand in 2014. [1]

(ii) In which category of expenditure would the various infrastructure projects be placed? [1]

(b) Explain how a fall in the rate of interest would be likely to affect expenditure on

(i) consumption, [3]

(ii) exports. [3]

(c) Explain how changes in any **three** demand factors might account for the greater rate of growth in numbers of visitors into Thailand from China than from other countries. [6]

(d) Discuss whether Thailand's government should be concerned that export and import spending represents the highest proportion of total spending in Thailand. [6]

Section B

Answer **one** question.

2 **(a)** Explain the different ways in which resources are allocated in a market economy and in a mixed economy. [8]

(b) Discuss the effectiveness of supply-side policies in increasing the supply of enterprise to the economy. [12]

3 **(a)** With the use of diagrams, explain how the price elasticity of demand for a product influences the incidence of an indirect tax on that product. [8]

(b) 'Indirect taxes reduce consumer surplus and should therefore never be imposed in a mixed economy.' Discuss this view. [12]

4 **(a)** Explain how a high rate of inflation and a rise in an economy's exchange rate can each cause a deficit in an economy's current account of the balance of payments. [8]

(b) Discuss whether a high rate of inflation or a deficit on the current account of the balance of payments is the more serious problem for an economy. [12]

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Section A

Answer this question.

1 The Trans-Pacific Partnership (TPP) – good or bad?

In February 2016, the controversial TPP trade deal was finally signed at a ceremony in Auckland, New Zealand.

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Imports are mainly vehicle parts, mechanical equipment, petroleum products and a wide range of other non-food items.

Source: New York Times, 2 February 2016

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Table 1.1: New Zealand's total trade in goods, with selected TPP partners and China in NZ$(m), year ended June 2015

	Exports to	Imports from
Australia	8514	6285
US	5483	6081
Japan	2943	3413
Singapore	1078	1801
Malaysia	982	1877
Canada	597	598
China	8267	9332
All other countries	20532	19438
Total trade in goods	48396	48825

Source: Global New Zealand – Investment and Travel Profile, 2015

(a) Use Table 1.1 to help you to answer parts **(i)**, **(ii)** and **(iii)**.

(i) With which TPP member did New Zealand have the largest deficit on its trade in goods in the year ended June 2015? Explain your answer. [2]

(ii) New Zealand's balance of trade in goods plus its services balance was estimated at NZ$2400m for the year ended June 2015. Calculate New Zealand's services balance. [2]

(iii) What **two** other items are needed to calculate New Zealand's current account balance? [2]

(b) Use the principle of comparative advantage to explain why New Zealand is likely to benefit from membership of the TPP. [4]

(c) Explain the likely effects of the removal of protection on the incomes of Canada's farmers. [4]

(d) Discuss whether China joining the TPP would be likely to be of overall benefit to existing TPP members. [6]

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Section B

Answer **one** question.

2 In March 2016, the United Kingdom government announced that it will introduce a 'sugar tax' on the producers of fizzy soft drinks in order to reduce child obesity.

(a) Using an example of each, explain the differences between direct progressive taxes and indirect regressive taxes. [8]

(b) Discuss whether a sugar tax or an educational campaign on healthy eating is more likely to reduce child obesity. [12]

3 In 2015, it was reported that the global demand for chocolate was projected to increase but it was unlikely that the global supply of cocoa beans, required to produce chocolate, would increase.

(a) State and explain **two** factors of production needed for the manufacture of chocolate. Explain the benefits of specialisation in the manufacture of chocolate. [8]

(b) Analyse the likely effects on the global price of chocolate of the reported changes in 2015. Discuss the most effective way that the price of chocolate might be stabilised. [12]

4 **(a)** Explain the main causes of changes in the general price level in your country, or any other country with which you are familiar. [8]

(b) Discuss whether monetary policy alone is the best way for a government to correct inflation. [12]

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